Overview

• Budget Development Process Review
• Baseline Budget Update
  • Infrastructure Cost Increases
  • Outstanding concerns
• Preliminary Revenue Forecast Review
• 2025-2026 Budget Strategy
  • High-level proposal overview
  • Customer assistance
• Next Steps
Budget Development Process

Baseline Budget
Jan - April

Budget Proposals
April – August*
Six-Year Forecast
Proposal Approvals

Proposed to Adopted Budget
August - November
Adopted Budget
<table>
<thead>
<tr>
<th></th>
<th>Solid Waste</th>
<th>Wastewater**</th>
<th>Stormwater</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>9.1%</td>
<td>11%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>33.9%</td>
<td>7.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>External Services</td>
<td>17.4%</td>
<td>No change</td>
<td>-3.2%***</td>
</tr>
<tr>
<td>Assessments****</td>
<td>4%</td>
<td>5%</td>
<td>18%</td>
</tr>
<tr>
<td>Fleet</td>
<td>26%</td>
<td>33%</td>
<td>54%</td>
</tr>
<tr>
<td>Taxes</td>
<td>10%</td>
<td>17.2%</td>
<td>14.5%</td>
</tr>
<tr>
<td><strong>Total Operating Budget Increase</strong></td>
<td><strong>10.9%</strong></td>
<td><strong>10.2%</strong></td>
<td><strong>8.7%</strong></td>
</tr>
</tbody>
</table>

*Excludes capital budget

**Internal Transfers category (not shown) increased 36% due to increases in Western Slopes contract. Site development transfer to PDS increased 15% in both Wastewater and Stormwater

*** Removal of one-time contract dollars for Stormwater comprehensive plan and PCD ILA ($-510K). Otherwise would be slight increase.

***** Does not include impacts from approved 2025-2026 budget proposals
Construction and Other Inflation

The utility generally faces different inflationary pressures than consumers. While customers primarily observe the Consumer Price Index (CPI) as an indicator for inflation, the Construction Cost Index (CCI) is a better indicator for a capital-intensive utility. Long-term financial planning allows the utility to weather periods of high costs in the short term and spread the impact over time.

Ongoing Impacts

The rate of inflation continues to level off, however cost decreases are unlikely, resulting in a new, higher ‘normal’ cost environment. Our Capital Improvement Plan (CIP) is considerably higher in part due to this higher escalation.

Interest rates for the next several years are expected to be near their highest levels in over a decade, resulting in higher financing costs for our upcoming capital plan.
CONSTRUCTION COST INDEX
Mortenson Quarterly Cost Index Q1 2024

(JANUARY 2009 = 100)
### 2025-2026 Major Concerns

<table>
<thead>
<tr>
<th>Capital</th>
<th>Regulations</th>
<th>Financial Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New “normal” higher costs</td>
<td>• Known and unknown</td>
<td>• Affordability</td>
</tr>
<tr>
<td>• Capital backlog</td>
<td>• Legal costs</td>
<td>• Long-range asset</td>
</tr>
<tr>
<td>• Life-cycle replacement</td>
<td>• New permits</td>
<td>management funding</td>
</tr>
<tr>
<td></td>
<td>• Organics and recycling legislation</td>
<td>strategy</td>
</tr>
</tbody>
</table>


## 2024 Financial Forecast

### 2025-2030 Preliminary* Six-Year Revenue Plan (March 2024)

<table>
<thead>
<tr>
<th>Year</th>
<th>Solid Waste</th>
<th>Wastewater</th>
<th>Stormwater</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>4%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>2024</td>
<td>4%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>2025</td>
<td>4%</td>
<td>7.0%</td>
<td>7.5% (+2.5%)</td>
</tr>
<tr>
<td>2026</td>
<td>4%</td>
<td>7.0%</td>
<td>7.5% (+2.5%)</td>
</tr>
<tr>
<td>2027</td>
<td>4%</td>
<td>6.0%</td>
<td>6.0% (+1.5%)</td>
</tr>
<tr>
<td>2028</td>
<td>4%</td>
<td>6.0%</td>
<td>6.0% (+1.5%)</td>
</tr>
<tr>
<td>2029</td>
<td>4%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>2030</td>
<td>4%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

*Subject to change based upon 2024 performance and updated 2025-2026 plan
Consistent Guiding Strategies

- Maintain effective and efficient service levels and operations
- Limited targeted investments or enhanced services
  - Support policy goals (Equity/Climate Action Plan)
  - Address requirements and critical business needs (Utility Growth, Changing Regulations, and Safety)
- Help our most vulnerable customers
- Plan for long-term organization, staffing, and asset needs
2025-2026 Budget Strategy

• Maintain **effective and efficient service** levels and operations
  - Understand baseline costs and current organizational needs
  - Seek improvements to the customer experience
  - Address requirements and critical business needs (growth, regulations, safety)

• **Advance strategic priorities** with limited targeted investments or enhanced services
  - Equity • Climate and Environmental Health • Council Policy Priorities

• **Long-range planning** for organization, staffing, and asset needs
  - Ensure financial sustainability
    - Consider affordability and support for vulnerable customers
  - Plan for capital backlog and next bond issuance
  - Long-term asset management planning with funding strategy

• Consider **new revenue** opportunities
Effective and Efficient Service Levels

• Institute Safe and Efficient SWM Staffing Levels
• Establish Environmental Services Asphalt Crew
  • Maintenance hole replacement program
• Enhance O&M Procurement Support Through Additional Warehouse Staff
• Utilize Project Staff to Address the Backlog of Electronic Documentation System Updates
• Add Environmental Services Funded Specialist Home in Tacoma Plan Reviewer

Healthy Neighborhoods + Thriving Puget Sound = A Better Tacoma
Effective and Efficient Service Levels

Solid Waste Workers & Collector Drivers Absence Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Vacation / PTO</th>
<th>Sick/FMLA/PFML</th>
<th>Other Time Off</th>
<th>Education &amp; Training</th>
<th>Admin Leave</th>
<th>FTE Equivalent</th>
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</thead>
<tbody>
<tr>
<td>2018</td>
<td>4,406</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>4,502</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2020</td>
<td>4,628</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>5,820</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2022</td>
<td>6,444</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>9,840</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.7</td>
</tr>
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</table>

FTE Equivalent
Major Initiatives and Proposals

Strategic Priorities – Equity and Climate

• Establish Budget for ES Equity Team Initiatives and Events
• Sponsor UWT Engineering Pathways Apprenticeship Program
• Improve Urban Forestry Planning Through Construction Arborist Position
• Pilot Call-2-Haul Multifamily Outreach Campaign
Major Initiatives and Proposals

New Revenue Opportunities

• Increase Environmental Services Grant Capacity Through Grant Coordinator
• Pursue Renewable (RNG) Fuel Credit
• Increase TAGRO Product and Delivery Fees
Long Range Planning

• Wastewater Comprehensive Plan
• Stormwater Comprehensive Plan
• Solid Waste Master Site Plan
  • Future of disposal
• Address capital backlog from pandemic delays and inflation
• Long-term asset management planning with funding strategy
• Increase rate stabilization fund
• Monitor key financial indicators (for 2027 bond issuance)
Customer Assistance Program Enhancement

Bill Credit Assistance Program Eligibility Update: from 60% to 80% AMI

Percentage of Customers Eligible & Enrolled

<table>
<thead>
<tr>
<th>Percent Enrolled</th>
<th>Percent Not Enrolled</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIE Eligibility</td>
<td>BCAP Current Eligibility (60% of AMI)</td>
</tr>
<tr>
<td>6.2%</td>
<td>25.0%</td>
</tr>
<tr>
<td>2.6%</td>
<td>22.3%</td>
</tr>
<tr>
<td>3.6%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

LIE Eligibility
- 3,830 Customers
- 6% of Customers
- 2,235 Enrolled, +5% YOY

BCAP Current Eligibility (60% of AMI)
- 15,216 Customers
- 25% of Customers
- 1,624 Enrolled, +126% YOY

BCAP Proposed Eligibility (Increase to 80% of AMI)
- 22,577 Customers
- 37% of Customers
-
Next Steps

• Report back to ESC July 11
  • Updated 2025-2026 revenue requirement
    • Incorporate most recent Capital Improvement Plan
    • Include budget proposals plugs
      • Environmental Services proposals
      • Internal Service proposals

• Budget proposal approvals

• Final revenue requirement and rates August/September
2025-2026 Budget Strategy

City of Tacoma | Environmental Services

Environmental Services Commission
June 13, 2024